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TAGS: [ETRD](#) [ELAB](#) [PGOV](#) [SENV](#) [CA](#)  
SUBJECT: Ontario Mayors Seek Federal Auto Sector Investment

Ref: (A) Toronto 123 (B) Toronto 130 (C) Toronto 32  
(D) 07 Toronto 457

Sensitive But Unclassified - Please Protect Accordingly.

¶1. (SBU) Summary: As Ontario's economy shows continued signs of slowing, mayors from Ontario's auto manufacturing jurisdictions met at General Motors in Oshawa, Ontario, on April 25 to discuss the health of the automotive sector in Ontario. Because of the huge capital costs required for automotive projects, the group is calling for cooperation and collaboration between companies and all levels of government. The mayors are also calling for the harmonization of government safety and other standards in North America to ensure that the Canadian automotive market remains affordable and competitive. The group suggested the U.S. and Canada align their free trade agreements with Korea. End Summary.

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Ontario Economic Engine Sputters  
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¶2. (U) Rising energy prices, a strong Canadian dollar, and a heavy dependence on manufacturing is hurting Ontario's economy. The province produced over 38% of the country's GDP in 2007, but this figure is shrinking, down from nearly 41% in 2003. Over the same period, the province's population has remained steady at around 38%. Ontario's unemployment rate rose 0.3 percentage points in March to 6.4%, which is slightly above the national average of 6%. Also in March, 25,000 full-time jobs were lost, though that was partially offset by the creation of 23,000 part-time jobs. A report released by Toronto Dominion Bank on April 29 warns that by 2010 Ontario may become a "have-not" province (economically disadvantaged), compared to other Canadian provinces. However, Ontario taxpayers would still be paying billions more to the federal government than they get back in equalization, or for health and social programs. (Note: In 2005 (latest available figures), Ontario taxpayers sent C\$21 billion more to Ottawa in taxes than the federal government spent in the province. End Note).

¶3. (SBU) Ontario is the leading jurisdiction for automotive production in North America, producing over 2.5 million light-duty vehicles annually, slightly ahead of Michigan (ref (A)). For each of the 50,000 assembly jobs in the province, there are roughly seven to 10 spin-off jobs (the highest ratio of any manufacturing sector). The strength of the Canadian dollar and faltering demand, however, will make it difficult for Ontario to hold onto top spot. Some Ontario auto sector analysts believe the proposed new Canadian Auto Workers (CAW) contract with Ford will not help (ref (B)). One analyst told us, "This contract doesn't provide nearly what was needed to make the Canadian auto industry competitive. C\$5 per hour

savings doesn't do it. This contract means that costs will stay too high, and the costs either have to come down or the jobs will eventually be transferred out of Canada."

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More Layoffs at GM  
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14. (U) On April 28, GM announced that it would cut another shift at its award-winning Oshawa, Ontario truck plant, laying off approximately 1,000 more employees by September. Industry officials attribute the move to rising fuel prices and the slumping U.S. economy, which have suppressed demand for relatively fuel-inefficient pick-up trucks and sport utility vehicles. CAW President Buzz Hargrove told reporters on April 29 that he would try to save these jobs by negotiating shorter schedules for two shifts. The planned layoffs come on the heels of GM's elimination of 1,200 jobs at the plant in 2007.

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"Ontario Mayors of Automotive Investment"  
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15. (U) On April 25, mayors from Ontario's auto manufacturing jurisdictions -- from Windsor to Oshawa, who call themselves the "Ontario Mayors of Automotive Investment" (OMAI) -- met at GM in Oshawa to discuss the health of the automotive sector and to develop a single voice for Ontario's municipal jurisdictions in order to attract and retain automotive investment in Ontario. Mayors and representatives of over 20 Ontario communities attended the meeting. Consul General Nay spoke at the event, as did Ontario MPP Monte Kwinter (Parliamentary Assistant, Ministry of Economic Development and Trade), and federal MP Colin Carrie (Parliamentary Assistant,

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Ministry of Industry).

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Cooperation Needed at All Levels  
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16. (SBU) The mayors are asking the federal and provincial governments for "...direct, sustainable, long term continued support and involvement to foster a business-friendly environment in [the auto] industry." Kwinter stated that cooperation and collaboration between companies and all levels of government is necessary to move big projects forward. Kwinter noted that Ford and the Ontario government had collaborated on the C\$130 million project to re-open the company's Essex Engine Plant, in Windsor Ontario, which was announced on March 31 (ref (A)). The project should bring back 300 of the more than 900 workers who had been laid-off last November. According to a contact at Ford, the Canadian federal government is still considering providing additional support to the project through its C\$250 million Automotive Innovation Fund (ref (A)).

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Regulatory Harmonization  
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17. (U) The mayors called on Canada and the U.S. to harmonize regulatory standards in order to "...reap the benefits of a North American marketplace and to ensure affordable prices and innovative technologies for Canadians." Roughly 40 motor vehicle safety standards are different in the U.S. and Canada, making some vehicles produced for the U.S. market unavailable in Canada. It is costly for producers to build vehicles specifically for the Canadian marketplace, which is a tenth the size of its U.S. counterpart. Transport Canada, the federal government department which regulates road and motor vehicle safety under the Motor Vehicle Safety Act (MVSA), is currently working to harmonize Canadian bumper standards with those in the U.S. and Europe. The new bumper test speed requirement rule is expected to be published in June.

18. (SBU) Transport Canada is also working on the country's first motor vehicle fuel consumption regulations, announced at the beginning of the year, which will enter into force as early as the

2011 model year. The fuel consumption regulations will reportedly be benchmarked against the U.S. target of 35 miles per gallon - or 6.7 liters/ 100 kilometers - for the average fuel economy of vehicles sold in 2020. Following on-going consultations with stakeholders, and between the GOC and the USG, the GOC expects to publish the draft regulations no later than the end of 2008 (though the deadline is dependent on the USG rule-making schedule), according to a Transport Canada contact.

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Free Trade Agreements  
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¶9. (SBU) The OMAI mayors expressed concern about a possible Canada free trade agreement with the Republic of Korea. The mayors, while acknowledging the need to enter new markets, argued that an agreement with the ROK must encourage equity and reciprocity, which includes investment in the local marketplace. In order to build a competitive North American marketplace, the group also suggested the the U.S. and Canada consult to align the two countries' free trade agreements with Korea.

¶10. (SBU) Comment: With falling U.S. demand, and higher production costs in Ontario than the U.S. (ref (A)), the province's auto sector is likely to experience more lay-offs in the near term. Regulatory harmonization will help reduce costs, but the cost of Canadian labor will have to become competitive with U.S. labor costs or auto sector jobs will move south of the border. End Comment.

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